



Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

Income & Equity Index Participation Fund

ANNUAL REPORT 2005

Income & Equity Index Participation Fund

Income & Equity Index Participation Fund (the “Fund” or “Income & Equity”) is a closed-end investment trust which became listed on the Toronto Stock Exchange on February 18, 2004. The Fund has a termination date of June 30, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund’s Declaration of Trust.

Pursuant to the Fund’s distribution policy, Income & Equity pays monthly cash distributions to the extent of the distributions received from the Fund’s portfolio less expenses. In 2005, the Fund paid monthly cash distributions of \$0.07 per unit for a total of \$0.84 per unit (2004 - \$0.70 per unit). For tax purposes, the 2005 distributions were allocated as 41.7% other taxable income, 3.7% dividend income, 7.3% capital gains and 47.3% return of capital.

INVESTMENT HIGHLIGHTS:

	2005	2004
Net Asset Value per Unit ⁽¹⁾	\$ 12.07	\$ 10.52
Market Price per Unit ⁽¹⁾	\$ 10.70	\$ 9.88
Trading Premium (Discount)	(11.4%)	(6.1%)
Cash Distributions per Unit ⁽²⁾	\$ 0.84	\$ 0.70
Trailing Yield ⁽³⁾	7.9%	n/a
Market Capitalization (\$ millions)	\$ 153.0	\$ 150.3

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ First monthly distribution had a record date of March 31, 2004 and was paid April 15, 2004

⁽³⁾ Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

Stock Symbol	IEP.un (TSX)
2005 High/Low	\$10.88 - \$8.53
2005 Cash Distributions	\$0.84 per unit
2005 Taxable % ⁽⁴⁾	47.8%
2005 Total Return ⁽⁵⁾	17.8%
2005 Management Expense Ratio	1.7%

⁽⁴⁾ Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

⁽⁵⁾ Total return is based upon the Fund’s change in market price plus the reinvestment of cash distributions in additional units of the Fund.

Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Income & Equity Index Participation Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Income & Equity's investment objectives are to provide investors with monthly cash distributions from an equal weighted diversified portfolio of Canadian income funds and to provide an opportunity to participate in gains in the broader Canadian equity market as represented by the S&P/TSX 60 Index through a 5 year capped call option on the Index.

RISK

There are a number of risks associated with an investment in Income & Equity Index Participation Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and semi-annual rebalancing by the Fund's rebalancing advisor of the securities held in the portfolio may reduce these risks.

RESULTS OF OPERATIONS

During 2005, Income & Equity's portfolio showed a strong appreciation as net assets rose to \$172.6 million or \$12.07 per unit at December 31, 2005, up from \$160.1 million or \$10.52 per unit at the end of 2004. The oil and gas royalty trust sector showed the largest valuation increase in the year, with strength also seen in the infrastructure and service sectors. In addition, the Fund had large unrealized gains in its S&P/TSX 60 capped call option, with its valuation rising by \$10.7 million in the year. The Fund's unit price closed the year at \$10.70 per unit, up from \$9.88 per unit at the end of 2004. Income & Equity's change in unit price plus monthly distributions produced a 17.8% total return for 2005, while the Fund generated a 24.8% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0% in 2005.

Total revenue for the Fund's first full year of operations was \$14.0 million compared to \$12.6 million for the period from February 18, the date of the initial public offering, to December 31, 2004. Administrative and rebalancing advisor fees, which are paid in units and calculated in reference to the Fund's net asset value, totaled \$0.96 million for the year compared to \$0.72 million for the prior partial year. Loan interest costs increased to \$0.9 million in 2005 from \$0.7 million in 2004 with the full year of operation and rising interest rates in 2005. The Fund maintained \$18.75 million of leverage on its term facility throughout 2004 and 2005. Trailer fees, which are also calculated in reference to the Fund's net asset value, totaled \$0.5 million for 2005 compared to \$0.4 million for the prior partial year. General and administration costs, including other expenses, totaled \$0.4 million in 2005 compared to \$0.3 million for the short year in 2004. After total expenses of \$2.7 million in 2005 (\$2.1 million in 2004), the Fund generated net investment income of \$11.3 million or \$0.77 per unit for 2005 compared to \$10.5 million or \$0.69 for 2004.

The Fund realized capital gains of \$0.2 million on the sale of investments as a result of the mid-year rebalancing. The year end rebalancing was not transacted until early January 2006. Unrealized gains in the Fund's portfolio totaled \$11.8 million and unrealized gains on the S&P/TSX 60 Index totaled \$10.7 million for the year. As a result of

these significant gains, the Fund generated total results of operations of \$34.0 million or \$2.32 per unit for the year. Comparatively, total results of operations were \$27.2 million or \$1.79 per unit for 2004 with realized gains totaling \$2.0 million and unrealized gains totaling \$14.8 million.

During 2005, Income & Equity paid monthly distributions of \$0.07 per unit for a total of \$12.3 million or \$0.84 per unit compared to \$10.7 million or \$0.70 per unit in 2004.

During the year, the Fund reduced its exposure to the ongoing business trusts and increased its overall holdings in the oil and gas trusts. As per the Fund's investment objective, the Fund maintains an equal weighted portfolio of Canadian income funds and as a result of its underweight position in the strong performing energy trusts, the Fund's performance trailed the Index.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

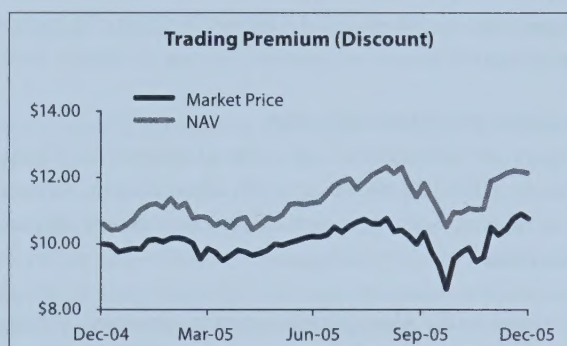
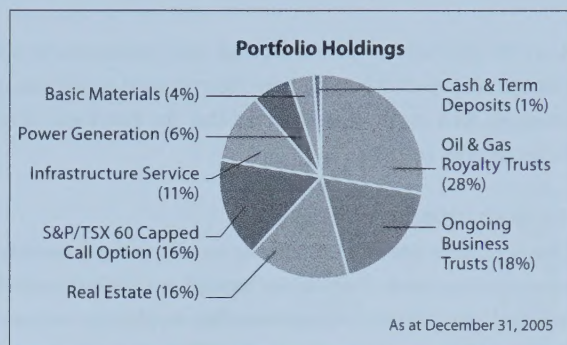
Throughout 2005, Income & Equity's unit price persistently traded below its net asset value with an average discount of 10.8% compared to an average discount to net asset value of 0.7% in 2004. As a result of this discount, the Fund repurchased 731,300 units for cancellation under its mandatory repurchase program at an average cost of \$10.01 per unit (2004 – 65,400 units at an average cost of \$9.38 per unit). Under its mandatory repurchase program, Income & Equity is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. In addition, the Fund repurchased 293,700 units in 2005 pursuant to a normal course issuer bid at an average cost of \$10.15 per unit (2004 – no units).

RECENT DEVELOPMENTS

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and a positive outlook for the income trust sector. Income & Equity expects to maintain its monthly distribution rate of \$0.07 per unit for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions.

Subsequent to year end, the Fund scheduled a special meeting of unitholders to be held in Calgary, Alberta on March 30, 2006. Unitholders were asked to consider and, if thought fit, pass a special resolution authorizing the administrator of the Fund to:

- (a) sell the equity call options currently held by the Fund back to the issuing Canadian financial institutions or to any other financial institution;
- (b) amend the declaration of trust of the Fund to permit the purchase by the Fund of new equity call options from one or more financial institutions;
- (c) purchase from one or more financial institutions one or more new equity call options having substantially similar attributes as the existing equity call options held by the Fund, including being based on the S&P/TSX 60 Index, being capped at 30% appreciation and having a 5 year term; and
- (d) amend the declaration of trust of the Fund to extend the termination date of the Fund from June 30, 2009 to September 30, 2011 to coincide with the renewed 5 year term of the new equity call options.



Based on quotations received from several financial institutions as at January 6, 2006 to both purchase the Fund's existing equity call options and to grant the replacement equity call options, distributing the net gain to unitholders over a 24 month period would have required the Fund to increase its monthly distribution from \$0.07 per trust unit per month to \$0.103 per trust unit per month.

However, unitholders have indicated their preference to maintain the current structure of the Fund and accordingly management elected to withdraw the proposed resolution of unitholders prior to the holding of the scheduled special meeting. As a result, it is expected that the Fund will continue to hold the existing capped equity call options until their maturity in 2009.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Equity Lift Management Ltd. is the administrator of Income & Equity, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 0.55% of the average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 2 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit

	2005	2004 ⁽¹⁾
NAV, beginning of year	\$ 10.52	\$ 9.42
Increase (decrease) from operations:		
Total revenue	0.95	0.83
Total expenses	(0.18)	(0.14)
Realized gains	0.02	0.13
Unrealized gains	1.53	0.97
Total increase (decrease) from operations	2.32	1.79
Distributions:		
From net investment income	0.83	0.70
From capital gains	0.01	–
Total annual distributions	0.84	0.70
NAV, end of year	\$ 12.07	\$ 10.52

⁽¹⁾ The Fund commenced operations on February 18, 2004.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2005	2004
Net assets (\$ 000's)	\$ 172,609	\$ 160,063
Number of units outstanding	14,300,250	15,214,381
Management expense ratio	1.66%	1.71%
Portfolio turnover ratio	12.83%	22.04%
Trading expense ratio	0.17%	0.12%
Closing market price	\$ 10.70	\$ 9.88

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

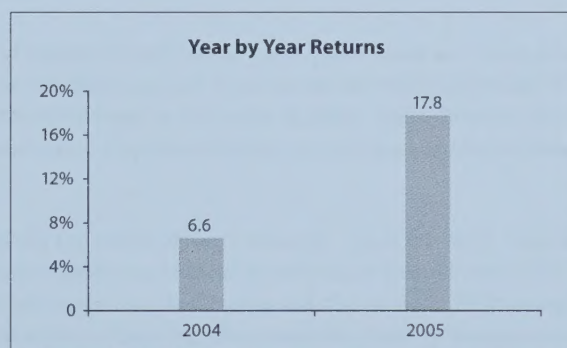
Pursuant to the administrative services agreement, administrative and investment management fees are based upon 0.55% of the average weekly net asset value of the Fund, payable in units monthly in arrears. Shaunessy & Company Ltd., as rebalancing advisor to the Fund, provides investment advisory and rebalancing services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Income & Equity's performance numbers from inception in February 2004 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The Fund's historical performance does not necessarily indicate how it will perform in the future.

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Income & Equity based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index.



	1 Year	Since inception
Income & Equity (market price)	17.8%	13.0%
Income & Equity (net asset value)	24.8%	24.4%
S&P/TSX Capped Income Trust Index	31.0%	29.5%

SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups:

	2005	2004
Oil & Gas Royalty Trusts	27.3%	23.0%
Ongoing Business Trusts	18.4%	25.5%
Real Estate Investment Trusts	16.1%	15.7%
Infrastructure / Service Investments	11.4%	10.0%
Power Generation Investments	5.8%	8.4%
Base Materials	3.9%	5.8%
S&P/TSX 60 Capped Call Option	16.1%	11.3%
Income & Equity units (repurchased for cancellation)	0.1%	–
Cash and Term Deposits	0.9%	0.3%
Total Investments	100.0%	100.0%

The top 25 holdings as at December 31, 2005 based on market values:

Total Energy Trust	1.1%	Viking Energy Royalty Trust	0.9%
Fairborne Energy Trust	1.0%	Sequoia Oil & Gas Trust	0.9%
Canadian Oil Sands Trust	1.0%	Paramount Energy Trust	0.9%
Harvest Energy Trust	0.9%	CCS Income Trust	0.9%
Shiningbank Energy Income Fund	0.9%	Vermilion Energy Trust	0.9%
Keyera Facilities Income Fund	0.9%	NAL Oil & Gas Trust	0.9%
Trilogy Energy Trust	0.9%	Zargon Energy Trust	0.9%
ARC Energy Trust	0.9%	Trinidad Energy Services Income Fund	0.9%
Advantage Energy Trust	0.9%	Daylight Energy Trust	0.8%
Newalta Income Fund	0.9%	Acclaim Energy Trust	0.8%
Progress Energy Trust	0.9%	Peak Energy Services Trust	0.8%
Baytex Energy Trust	0.9%	Pengrowth Energy Trust	0.8%
PennWest Energy Trust	0.9%	% of Total Portfolio	22.6%

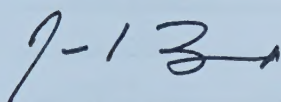
Management's Responsibility Statement

The financial statements of Income & Equity Index Participation Fund have been prepared by Equity Lift Management Ltd. ("ELML") and approved by the Board of Directors of ELML. ELML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

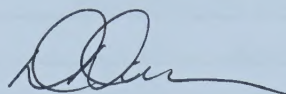
ELML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of ELML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of ELML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Equity Lift Management Ltd.
April 6, 2006



Darren K. Duncan
Chief Financial Officer
Equity Lift Management Ltd.

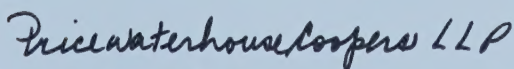
Auditors' Report to Unitholders

To the Unitholders of Income & Equity Index Participation Fund

We have audited the statements of net assets and investments of Income & Equity Index Participation Fund as at December 31, 2005 and 2004 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2005 and for the period December 17, 2003, the date of inception of the Fund, to December 31, 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2005 and 2004 and the results of its operations, the changes in its net assets and cash flows for the year ended December 31, 2005 and for the period December 17, 2003, the date of inception of the Fund, to December 31, 2004 in accordance with Canadian generally accepted accounting principles.



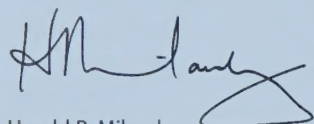
Chartered Accountants
Calgary, Alberta
March 10, 2006

Statement of Net Assets

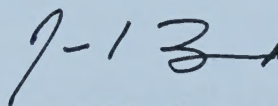
As at December 31,	2005	2004
Assets		
Investments, at market	\$ 188,805,900	\$ 177,927,437
Cash and term deposits	1,750,591	550,054
Receivable from investments sold	1,545,457	–
Revenue receivable	1,377,583	1,185,200
Accounts receivable	279,367	329,495
Prepaid expenses	7,955	8,022
	<u>193,766,853</u>	<u>180,000,208</u>
Liabilities		
Payable for investments purchased	1,278,425	–
Distributions payable	1,001,018	1,065,007
Accounts payable and accrued liabilities	128,701	121,714
Loan payable (note 9)	18,750,000	18,750,000
	<u>21,158,144</u>	<u>19,936,721</u>
Net Assets representing Unitholders' Equity	\$ 172,608,709	\$ 160,063,487
Units outstanding (note 3)	14,300,250	15,214,381
Net asset value per unit	\$ 12.07	\$ 10.52

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

	Year Ended December 31, 2005	For the Period December 17, 2003 to December 31, 2004
Revenue		
Distribution income	\$ 13,952,035	\$ 12,489,915
Interest income	29,006	84,473
	13,981,041	12,574,388
Expenses		
Administrative and investment manager fees (note 5)	962,006	724,690
Loan interest	876,570	677,183
Trailer fee (note 6)	495,179	395,891
General and administration costs	204,354	125,843
Directors' fees	72,782	60,314
Reporting costs	36,640	36,142
Audit fees	22,234	22,434
Trustee fees	20,434	16,644
Custodial fees	18,755	27,035
Legal fees	12,920	12,963
	2,721,874	2,099,139
Net investment income	11,259,167	10,475,249
Net realized gain on sale of investments (note 7)	225,313	1,950,659
Net change in unrealized gain on investments	11,774,981	12,531,776
Net change in unrealized gain on S&P/TSX 60 option	10,736,360	2,262,686
Total results of operations	\$ 33,995,821	\$ 27,220,370
Results of operations per unit ⁽¹⁾		
Net investment income	\$ 0.77	\$ 0.69
Net realized gain on sale of investments	0.02	0.13
Net change in unrealized gain on investments	0.80	0.82
Net change in unrealized gain on S&P/TSX 60 option	0.73	0.15
	\$ 2.32	\$ 1.79

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	Year Ended December 31, 2005	For the Period December 17, 2003 to December 31, 2004
Net Assets – beginning of period	\$ 160,063,487	\$ –
Operations:		
Net investment income	11,259,167	10,475,249
Net realized gain on sale of investments	225,313	1,950,659
Net change in unrealized gain on investments	11,774,981	12,531,776
Net change in unrealized gain on S&P/TSX 60 option	10,736,360	2,262,686
	33,995,821	27,220,370
Unitholder Transactions:		
Issuance of trust units, net	1,122,525	144,116,576
Repurchase of trust units	(10,302,085)	(613,213)
	(9,179,560)	143,503,363
Distributions to Unitholders: (note 8)		
From net investment income	(12,210,733)	(10,660,246)
From capital gains	(60,306)	–
	(12,271,039)	(10,660,246)
Net Assets – end of period	\$ 172,608,709	\$ 160,063,487
Distributions per unit	\$ 0.84	\$ 0.70

see accompanying notes

Statement of Cash Flows

	Year Ended December 31, 2005	For the Period December 17, 2003 to December 31, 2004
Cash flows from operating activities:		
Net investment income	\$ 11,259,167	\$ 10,475,249
Fees paid in trust units	951,566	723,218
Net change in non-cash working capital	(466,224)	(329,432)
Purchase of investments and S&P/TSX 60 option	(23,558,892)	(196,644,699)
Proceeds from sale of investments	35,417,085	35,462,381
	23,602,702	(150,313,283)
Cash flows from financing activities:		
Issuance of units, net	–	143,231,643
Increase in loan payable	–	18,750,000
Proceeds from distribution reinvestment plan	170,959	155,154
Cash distributions to unitholders	(12,271,039)	(10,660,246)
Repurchase of trust units	(10,302,085)	(613,213)
	(22,402,165)	150,863,337
Net increase (decrease) in cash and term deposits	1,200,537	550,054
Cash and term deposits, beginning of period	550,054	–
Cash and term deposits, end of period	\$ 1,750,591	\$ 550,054

see accompanying notes

Statement of Investments

	December 31, 2005				December 31, 2004			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
ACS Media Income Fund	124,443	\$ 1,407,795	\$ 1,113,765		150,868	\$ 1,706,735	\$ 1,418,159	
Aeroplan Income Fund	110,206	1,302,635	1,422,759		—	—	—	
Arctic Glacier Income Fund	118,761	1,389,959	1,282,619		124,244	1,454,131	1,490,928	
BFI Canada Income Fund	47,635	869,115	1,338,067		59,640	1,088,150	1,460,584	
Bell Nordiq Income Fund	71,452	1,049,269	1,271,846		89,461	1,313,730	1,451,952	
The Brick Group Income Fund	106,593	1,486,120	992,381		107,138	1,483,861	1,495,646	
CML Healthcare Income Fund	93,894	1,019,689	1,352,074		107,612	1,168,666	1,436,620	
Cineplex Galaxy Income Fund	81,277	927,081	1,186,644		99,668	1,136,857	1,465,120	
Clearwater Seafoods Income Fund	—	—	—		165,196	1,964,308	1,450,421	
Connors Brothers Income Fund	86,121	1,477,424	924,940		78,657	1,362,329	1,466,953	
Consumers' Waterheater Income Fund	79,879	1,173,435	1,250,106		90,552	1,330,223	1,380,918	
Contrans Income Fund	91,003	1,072,015	1,279,502		103,128	1,214,848	1,446,886	
Custom Direct Income Fund	92,690	980,660	912,996		125,851	1,331,504	1,447,286	
Davis + Henderson Income Fund	62,162	1,177,287	1,441,538		64,708	1,225,506	1,468,872	
Entertainment One Income Fund	—	—	—		120,694	1,490,571	1,433,845	
Gateway Casinos Income Fund	67,241	1,219,079	1,073,166		69,557	1,261,068	1,498,953	
KCP Income Fund	113,476	1,107,797	1,043,979		129,812	1,267,276	1,472,068	
Keyera Facilities Income Fund	79,586	1,008,523	1,730,995		102,417	1,297,841	1,473,781	
Livingston International Income Fund	61,111	1,062,245	1,374,997		66,002	1,147,262	1,481,745	
Menu Foods Income Fund	—	—	—		98,633	1,506,386	1,464,700	
Movie Distribution Income Fund	116,631	1,341,595	1,032,184		106,075	1,219,674	1,511,569	
North West Company Fund	39,111	979,968	1,407,996		51,244	1,283,973	1,483,514	
Osprey Media Income Fund	148,621	1,410,562	936,312		157,791	1,491,125	1,491,125	
Prizm Canadian Income Fund	95,270	1,433,813	905,065		99,029	1,490,386	1,463,649	
Rogers Sugar Income Fund	279,663	1,192,238	1,034,753		320,744	1,367,372	1,443,348	
Sleep Country Canada Income Fund	65,054	1,483,633	1,382,397		58,905	1,474,981	1,407,240	
TransForce Income Fund	80,491	892,684	1,373,176		95,379	1,038,672	1,452,622	
Tree Island Wire Income Fund	82,620	1,031,098	753,494		93,812	1,170,774	1,515,064	
UE Waterheater Income Fund	94,922	1,175,896	1,309,924		112,504	1,393,702	1,479,428	
Versacold Income Fund	144,172	1,420,294	1,247,088		168,587	1,660,815	1,537,513	
Westshore Terminals Income Fund	109,649	833,967	1,311,402		123,343	938,121	1,544,254	
Yellow Pages Income Fund	87,219	1,078,211	1,421,670		109,598	1,354,863	1,478,477	
		34,004,087	35,107,835	18.4%		41,635,710	45,513,240	25.5%
Real Estate								
Alexis Nihon Reit	101,201	1,231,616	1,345,973		115,031	1,399,927	1,443,639	
Allied Properties Reit	83,361	1,325,440	1,412,969		—	—	—	
Boardwalk Reit	66,349	1,053,622	1,405,935		79,841	1,267,875	1,473,066	
Calloway Reit	60,683	918,421	1,440,614		77,751	1,176,741	1,457,831	
Canadian Reit	67,345	1,145,312	1,517,283		80,709	1,372,588	1,432,585	
Canadian Apartment Reit	87,689	1,277,019	1,416,177		100,341	1,461,271	1,513,142	
Canadian Hotel Income Properties Reit	114,274	1,263,612	1,337,006		140,099	1,549,179	1,492,054	
Chartwell Seniors Housing Reit	90,559	1,270,421	1,448,944		106,075	1,488,089	1,495,657	
Cominar Reit	68,915	1,124,944	1,327,992		85,103	1,389,191	1,468,878	
Dundee Reit	48,633	1,210,077	1,249,868		57,897	1,440,582	1,482,163	
H&R Reit	66,621	1,151,152	1,385,717		79,627	1,375,884	1,512,117	
IPC U.S. Income Commercial Reit	118,329	1,290,666	1,344,217		141,213	1,540,271	1,496,858	
InnVest Reit	107,032	1,272,834	1,342,181		125,004	1,486,559	1,487,548	
Legacy Hotels Reit	177,898	1,248,971	1,423,184		208,240	1,461,993	1,503,493	
Morguard Reit	120,411	1,179,435	1,324,521		143,622	1,406,789	1,479,307	
Northern Property Reit	68,480	1,283,315	1,301,120		—	—	—	
O&Y Reit	—	—	—		106,075	1,436,297	1,495,658	
Primaris Retail Reit	91,903	1,146,075	1,501,695		108,082	1,347,835	1,446,137	
Retirement Residence Reit	143,062	1,866,414	1,251,793		143,963	1,878,169	1,482,819	
RioCan Reit	65,022	1,073,140	1,481,852		80,885	1,334,947	1,435,709	
Summit Reit	63,405	1,227,915	1,557,861		81,372	1,575,868	1,466,323	
Sunrise Senior Reit	103,538	1,356,348	1,393,622		—	—	—	
TGS North American Reit	173,391	1,359,385	1,374,991		—	—	—	
		27,276,134	30,585,515	16.1%		27,390,055	28,064,984	15.7%

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Oil & Gas Royalty Trusts							
APF Energy Trust	—	—	—	122,926	1,460,337	1,440,693	
ARC Energy Trust	65,217	975,921	1,727,598	84,043	1,257,637	1,504,370	
Acclaim Energy Trust	84,774	1,010,282	1,606,467	101,855	1,213,843	1,466,712	
Advantage Energy Trust	76,677	1,355,446	1,719,865	66,238	1,175,373	1,457,898	
Baytex Energy Trust	96,471	1,045,579	1,707,537	115,508	1,208,046	1,475,037	
Bonavista Energy Trust	41,895	883,809	1,596,199	53,132	1,120,863	1,439,877	
Bonterra Energy Trust	64,763	1,588,656	1,528,407	59,762	1,485,086	1,500,026	
Calpine Natural Gas Trust	—	—	—	110,167	1,352,494	1,485,051	
Canadian Oil Sands Trust	14,433	686,606	1,818,558	23,991	1,141,298	1,622,031	
Crescent Point Energy Trust	70,370	985,587	1,455,252	86,845	1,216,333	1,463,338	
Daylight Energy Trust	130,043	1,319,936	1,616,434	—	—	—	
Enerplus Resources Fund	27,787	1,069,978	1,552,182	33,828	1,302,595	1,474,901	
Enterra Energy Trust	44,535	761,858	853,292	63,928	1,093,613	1,450,526	
Esprit Energy Trust	108,914	1,377,762	1,465,982	118,565	1,499,847	1,469,020	
Fairborne Energy Trust	120,411	1,340,174	1,986,781	—	—	—	
Focus Energy Trust	60,205	855,009	1,548,473	71,741	1,018,839	1,432,668	
Freehold Royalty Trust	81,328	1,219,531	1,529,780	83,196	1,247,542	1,451,770	
Harvest Energy Trust	48,075	1,096,189	1,787,909	64,847	1,478,512	1,488,239	
Ketch Resources Trust	114,073	1,302,714	1,282,181	—	—	—	
NAL Oil & Gas Trust	91,259	1,001,293	1,649,963	108,161	1,186,742	1,465,581	
NAV Energy Trust	162,149	1,366,916	1,530,687	—	—	—	
Paramount Energy Trust	75,607	845,522	1,676,207	91,107	1,018,860	1,452,246	
Pengrowth Energy Trust	70,676	1,311,665	1,600,811	79,107	1,452,735	1,463,479	
PennWest Energy Trust	44,874	1,326,027	1,704,763	—	—	—	
Petrofund Energy Trust	66,689	1,093,286	1,366,458	92,988	1,524,425	1,451,543	
Peyto Energy Trust	44,459	602,380	1,128,814	30,874	836,630	1,476,703	
PrimeWest Energy Trust	42,415	1,029,592	1,522,698	54,799	1,330,204	1,458,749	
Progress Energy Trust	99,803	1,371,293	1,713,618	108,634	1,492,631	1,468,732	
Provident Energy Trust	101,438	1,094,090	1,273,047	127,691	1,377,249	1,451,847	
Sequoia Oil & Gas Trust	82,936	1,314,536	1,681,113	—	—	—	
Shiningbank Energy Income Fund	60,345	1,055,960	1,759,057	67,441	1,180,131	1,449,307	
Trilogy Energy Trust	72,609	1,321,484	1,728,094	—	—	—	
Vermilion Energy Trust	55,669	936,909	1,655,596	73,700	1,240,371	1,482,844	
Viking Energy Royalty Trust	183,677	1,072,278	1,689,828	219,033	1,245,521	1,478,473	
Zargon Energy Trust	51,893	1,284,352	1,647,603	59,858	1,481,486	1,427,613	
		36,902,620	52,111,254	27.3%	35,639,243	41,149,274	23.0%
Basic Materials							
Chemtrade Logistics Income Fund	82,567	1,588,080	882,641	73,993	1,452,611	1,502,058	
Fording Canadian Coal Trust	34,776	568,548	1,398,691	16,055	787,443	1,487,817	
Great Lakes Carbon Income Fund	106,506	1,277,544	1,075,711	143,544	1,721,816	1,550,275	
Labrador Iron Ore Royalty Income Fund	57,288	1,107,283	1,533,027	66,297	1,262,936	1,455,219	
Noranda Income Fund	104,453	1,199,170	1,248,213	115,838	1,329,875	1,453,767	
SFK Pulp Fund	—	—	—	202,258	1,606,268	1,466,370	
TimberWest Forest Corp.	88,285	1,141,876	1,359,589	99,668	1,289,103	1,502,993	
		6,882,501	7,497,872	3.9%	9,450,052	10,418,499	5.8%
Power Generation							
Algonquin Power Income Fund	125,646	1,417,645	1,313,001	141,164	1,592,733	1,499,162	
Boralex Power Income Fund	117,686	1,286,611	1,179,214	132,122	1,444,434	1,495,621	
Calpine Power Income Fund	125,042	1,522,400	1,004,087	130,841	1,593,004	1,477,195	
Clean Power Income Fund	—	—	—	218,391	2,021,925	1,515,634	
Epcor Power L.P.	35,531	1,340,611	1,252,468	41,251	1,556,431	1,464,410	
Great Lakes Hydro Income Fund	66,518	1,160,373	1,207,302	78,992	1,377,976	1,524,546	
Innergex Power Income Fund	95,061	1,133,336	1,254,805	116,019	1,383,201	1,531,451	
MacQuarie Power Income Fund	114,576	1,270,648	1,177,841	134,044	1,486,548	1,467,782	
Northland Power Income Fund	88,706	1,145,988	1,322,606	108,398	1,400,387	1,532,748	
TransAlta Power, L.P.	132,024	1,336,611	1,293,835	146,310	1,481,242	1,498,214	
		11,614,223	11,005,159	5.8%	15,337,881	15,006,763	8.4%

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Infrastructure / Service							
AltaGas Income Trust	51,543	1,031,279	1,440,627	64,991	1,327,116	1,504,542	
CCS Income Trust	44,843	706,337	1,659,191	34,376	1,082,936	1,510,138	
Enbridge Income Fund	92,034	1,170,739	1,332,652	107,224	1,363,967	1,495,775	
Energy Savings Income Fund	74,311	1,214,292	1,411,166	79,841	1,304,656	1,536,939	
Fort Chicago Energy Partners L.P.	99,957	1,116,985	1,198,484	128,575	1,436,781	1,465,755	
Gaz Metro L.P.	58,843	1,342,812	1,151,558	64,038	1,461,363	1,410,117	
Inter Pipeline Fund	132,969	1,140,105	1,336,338	159,682	1,369,148	1,462,687	
Newalta Income Fund	58,817	1,059,594	1,716,280	64,708	1,165,721	1,446,224	
Peak Energy Services Trust	122,107	1,318,756	1,605,707	–	–	–	
Pembina Pipeline Income Fund	93,556	1,264,686	1,492,218	107,690	1,455,748	1,469,968	
Precision Drilling Income Trust	31,000	1,185,750	1,189,780	–	–	–	
Superior Plus Income Fund	40,830	1,133,428	959,505	49,255	1,367,304	1,478,635	
Taylor NGL L.P.	138,639	1,109,112	1,393,322	185,975	1,487,800	1,567,769	
Total Energy Trust	128,501	1,380,101	2,180,662	–	–	–	
Trinidad Energy Services Income Fund	104,035	860,008	1,645,834	140,763	1,163,621	1,469,566	
		17,033,984	21,713,324	11.4%	15,986,161	17,818,115	10.0%
Income & Equity - repurchased units to be cancelled	8,600	92,675	92,020	0.1%	–	–	–
S&P/TSX 60 Capped Call Option		17,693,875	30,692,921	16.1%	17,693,875	19,956,561	11.3%
Investments		151,500,099	188,805,900	99.1%	163,132,977	177,927,436	99.7%
Cash and Term Deposits		1,750,591	1,750,591	0.9%	550,054	550,054	0.3%
Total		\$ 153,250,690	\$ 190,556,491	100.0%	\$ 163,683,031	\$ 178,477,490	100.0%

All portfolio holdings are trust units, except the following: Noranda Income Fund – priority units; TimberWest Forest Corp. – stapled units; Epcor Power L.P., TransAlta Power L.P., Gaz Metro L.P. and Taylor NGL L.P. – LP units; Fort Chicago Energy Partners L.P. - Class A LP units.

Notes to Financial Statements

December 31, 2005 and 2004

1. STRUCTURE OF THE FUND

Income & Equity Index Participation Fund (the “Fund” or “Income & Equity”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 17, 2003. The Fund commenced operations upon completion of its initial public offering on February 18, 2004. The term of the Fund continues until June 30, 2009 in accordance with the provisions of the Fund’s Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date. The capped call option is recorded at its fair value on the valuation date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	15,214,381	\$ 143,503,363	–	\$ –
Issued for cash:				
Initial public offering	–	–	15,000,000	150,000,000
Over-allotment provision	–	–	190,000	1,900,000
Agents' fees and issue costs	–	–	–	(8,668,358)
Issued for services (note 5)	95,272	951,566	72,978	729,780
Issued under DRIP	15,597	170,959	16,803	155,154
Repurchase of trust units	(1,025,000)	(10,302,085)	(65,400)	(613,213)
Trust units – end of year	14,300,250	\$ 134,323,803	15,214,381	\$ 143,503,363

The weighted average number of units outstanding in 2005 was 14,679,551 (2004 - 15,200,989).

The Fund has a mandatory repurchase program whereby trust units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2005, Income & Equity repurchased 731,300 trust units under this program at an average cost of \$10.01 per unit (2004 – 65,400 units at an average cost of \$9.38 per unit).

On February 11, 2005, the Fund entered into a normal course issuer bid whereby a total of 1,521,438 trust units may be repurchased for cancellation over a period of twelve months. For the period up to December 31, 2005, the Fund had repurchased 293,700 trust units pursuant to this bid at an average cost of \$10.15 per unit (2004 – no units).

Unitholders of Income & Equity can acquire additional trust units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. In 2005, 15,597 units were issued under the DRIP (2004 – 16,803 units).

4. CAPPED CALL OPTION

Upon closing of its initial public offering, the Fund purchased an "at the money" five year capped call option on the S&P/TSX 60 Index from two chartered banks. The option is a European option which means it can only be exercised upon the expiry date of February 18, 2009. The option is capped at the first 30% increase in the S&P/TSX 60 Index, representing an additional \$3.00 to unitholders.

5. ADMINISTRATIVE AND REBALANCING ADVISORY FEES/DIRECTORS' FEES

Equity Lift Management Ltd. ("ELML") is the administrator of the Fund and Shaunessy & Company Ltd., Inc. is the rebalancing advisor of the Fund. Pursuant to the administrative services and rebalancing advisory agreements, aggregate administrative and rebalancing advisor fees are based upon 0.55% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2005, the Fund issued 90,059 trust units and recorded an expense of \$962,006 in respect of the administrative and rebalancing advisory fees for the year (2004 – 67,728 trust units and an expense of \$724,690). The administrative services

agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2005, included in accounts receivable were amounts owed from ELML of \$279,367 (2004 – \$329,495).

Directors of ELML received a total of 5,213 units in 2005 (2004 – 5,250 units) as payment for their annual retainers.

6. TRAILER FEE

Income & Equity pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.30% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2005, the Fund recorded an expense of \$495,179 relating to the trailer fee (2004 – \$395,891).

7. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2005	2004
Net proceeds from the sale of securities	\$ 35,417,085	\$ 35,462,381
Less cost of securities sold:		
Investments at cost – beginning of year	\$ 145,439,102	–
Investments purchased during year	23,558,892	178,950,824
Investments at cost – end of year	(133,806,222)	(145,439,102)
Cost of investments disposed of during year	35,191,772	33,511,722
Net realized gain on sale of investments	\$ 225,313	\$ 1,950,659

8. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.07 per unit based upon cash distributions received by the Fund less estimated expenses. In 2005, the Fund also distributed a portion of its realized capital gains in order to supplement distributions.

	2005	2004
Net investment income for the period	\$ 11,259,167	\$ 10,475,249
Add fees paid by issuance of units	951,566	723,218
Capital distributed (cash flow retained)	60,306	(538,221)
Cash distributions	\$ 12,271,039	\$ 10,660,246
Cash distributions per unit	\$ 0.84	\$ 0.70

9. LOAN PAYABLE

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of \$22.5 million. At December 31, 2005 and 2004 the Fund had fully drawn upon the term portion of the facility in the amount of \$18.75 million. The term facility is due and payable on the earlier of February 18, 2009 or termination of the Fund. Under the revolving portion of the facility, the full amount of \$3.75 million was available at December 31, 2005 and 2004. Borrowings are collateralized by a \$50 million demand debenture which provides a first floating charge over the Fund's assets. The facility bears interest at the bank's prime rate on the revolving facility and prime rate plus ¼% on the term facility.

10. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$276,602 in 2005 (2004 – \$144,086) in relation to the purchase and sale of investments.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
MYDAS Management Inc.
Citadel Multi-Sector Management Inc.
Citadel Series Management Ltd.
Citadel IG Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
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Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Paul L. Waitzer - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,
CMS.un, SRC.un, CIF.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un and SPU.un)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Rebalancing Advisor

(IEP.un and EQW.un)
Shaunessy Investment Counsel
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

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4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
MYDAS Fund units: **MYF.un**
Citadel Multi-Sector Income Fund units: **CMS.un**
Series S-1 Income Fund units: **SRC.un**
Citadel Income & Growth Fund units: **CIF.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**



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